EXHIBIT E

UNITED STATES DISTRICT COURT

SOUTHERN DISTRICT OF NEW YORK

ASSURED GUARANTY MUNICIPAL CORP., f/k/a FINANCIAL SECURITY ASSURANCE INC., Plaintiff,	)
vs.	) Case No. 11-CV-2375 (JSR)
FLAGSTAR BANK, FSB; FLAGSTAR CAPITAL MARKETS CORPORATION; and FLAGSTAR ABS, LLC, Defendants.	)

DEPOSITION OF DAVID WILLIAMS

New York, New York

November 8, 2011

Reported By:

CATHI IRISH, RPR, CLVS, CCR

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setting aside sufficient capital in order to cover any losses it may incur over transactions that it was insuring?

MR. BUCHDAHL: Objection to form.

THE WITNESS: Yeah, I think that's not exactly correct. The -- the business model was not set up to absorb losses. It was a zero loss underwriting model so the rating agencies, every deal was rated at least BBB, which under the rating agency's own assumptions were effectively, you know, base case zero loss scenarios. So I think your question is not completely accurate.

BY MS. RENDON:

Q. I appreciate that clarification. So let's go back to where I think you were pointing out the inaccuracy, which I think what you were referring to is the FSA's business model was not designed to actually absorb losses; is that correct?

A. I did not say that. I said it was a zero loss underwriting model.

Q. Okay. And what does that mean?

A. Unlike a property and casualty company

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that has a certain amount of loss based in their model, we were assuming zero loss on every transaction that we did.

Q. How did FSA feel comfortable assuming zero loss on every transaction that it did?

A. Comfortable? What does that mean?

Q. I'm assuming that -- you said FSA assumed a zero loss on every transaction that you insured; is that correct?

MR. BUCHDAHL: Objection to form.

THE WITNESS: That was the structuring/underwriting position that the firm took.

Said another way, we never did a deal assuming we were going to take loss on it and say oh, that's great, you know, blah, blah, you know, there's three reasons why this is okay. That was never the case.

BY MS. RENDON:

Q. Ultimately when the housing market turned though, FSA did start taking losses on transactions that it insured, correct?

MR. BUCHDAHL: Objection, form.

THE WITNESS: Yes.

of FSA?

A. As a direct report?

Q. No, or you can explain to me as indirect or direct.

A. I mean the president of the company, ultimately I reported to him.

Q. Maybe you can explain the lines of reporting.

A. Sure. My boss was a gentleman by the name of Rick Holzinger. He was in charge of the four structured finance groups and he reported to the president of the company.

Q. And RMG was one of the four structured finance groups Mr. Holzinger was managing?

A. Correct.

Q. And then you were the head of RMG?

A. Correct.

Q. Do you recall Mr. Holzinger ever consulting you or seeking your opinion about what was transpiring in the housing market in 2007 and 2008?

A. No.

Q. You don't recall him ever asking you that question?

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BY MS. RENDON:

Q. You said that what does the collateral look like. What would FSA do to understand what the collateral would look like?

A. We would get a tape and our tape guy would split this up into various categories. The normal things, geography, lien status. Obviously on these deals they are second liens, but lien status, debt to income ratio, LTV, credit score, owner occupancy, I'm trying to -- that's probably -- those are probably some of the big things. That's probably -- those are probably the big items.

Q. And would the group just accept what was on the data tape that came in the door from the issuer or would FSA do more work to verify the accuracy of that information?

A. Well, two things. The accountants on the deal would generally do a sample for data accuracy only. And then we would have a file diligence that would do data accuracy as well as underwriting, does it meet the guidelines, those kinds of things.

MR. BUCHDAHL: We need to take a break

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for data accuracy as well. In addition, would be checking the validity of the issuer's own underwriting. And we would also map out our own -- FSA's own credit underwriting guidelines.

Q. What do you mean by that last component there, FSA would also map out its own credit underwriting guidelines, what do you mean by that?

A. FSA had its own guidelines that we liked to underwrite loans to, mainly to map portfolios against our database.

Q. And what would -- and I understand you can't sit here right now and cite to me chapter and verse of what those underwriting guidelines contain but can you give me an idea what were the kinds of things those underwriting guidelines covered? And now I'm talking about the internal FSA underwriting guidelines.

A. Sure. We assigned grades to collateral, ability to pay, and credit, and an overall loan grade.

Q. And I guess that -- and that would be the final result of this -- -- well, strike that.

In coming up with the overall loan grade and grading collateral, ability to pay,

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credit, was that based solely on FSA's own internal credit underwriting guidelines or a combination of the due diligence that was performed on the issuer's guidelines as well as the FSA's own underwriting guidelines?

A. Generally speaking, the FSA underwriting guidelines would produce grades based on the FSA underwriting guidelines.

Q. And I guess my question is: What are the FSA underwriting guidelines? Can you describe those for me? What were the kinds of things that were covered by them?

MR. BUCHDAHL: Objection to form, asked and answered.

THE WITNESS: I think I answered that. We would give a credit grade, we would assign a collateral grade, and we would assign an ability to pay grade.

BY MS. RENDON:

Q. I appreciate -- I understand that. So I guess my question is: Did the guidelines give guidance as to what your contract underwriter was supposed to be looking at in assigning those grades?

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Q. Who drafted them?
A. People before me.
Q. And they would be provided to the contract underwriters that were assigned to do due diligence on the collateral in a transaction?
A. I don't know that to be a fact but that is a reasonable assumption.
Q. You'd assume that?
A. That's correct.
Q. And was it your understanding that the contract underwriters would also get the underwriting guidelines of the issuer?
A. That's my understanding.
Q. And they would underwrite both sets of loans -- well, re-underwrite the loans to the issuer's underwriting guidelines and then separately look at the loans through the lens of FSA's own internal underwriting guidelines?
A. That is correct.
Q. You indicated that they would do that type of re-underwriting to the issuer guidelines as well as underwriting to FSA's only internal credit underwriting guidelines on a sample of loans; is that correct?

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A. Yes.

Q. And you said it was typically 2- to 300; is that right?

A. It was a general comment. I don't know what it was. That seems reasonable.

Q. Okay.

The sample, how do you understand the sample of loans was selected?

A. On this deal, I don't know the specifics. General commentary would be there would be a random selection and targeted -- targeted loans selected.

Q. And the targeted loans, would that be what I think I've seen referred to as an adverse selection of loans?

A. It -- it -- it -- broadly speaking, yes.

Q. What is it that I don't seem to be capturing?

A. Well -- well, there were -- and let's call it beginning in 2003 or what have you, many -- many states, county, cities, jurisdictions, started producing their own high cost statutes and so the TILA rules of reg Z were

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no longer the only standard to be met for high cost loans. So there were targeted sampling to deal with whatever the various jurisdictions were. The first state was Georgia. After that, I can't remember what other states started doing things.

Q. Okay. The sample that was chosen through the random process, as compared to what I think you called the targeted selection, the random selection, that was designed to be representative of the loans in the broader transaction?

A. Yes.

Q. And how was that achieved? How was that done to your knowledge?

A. Like physically?

Q. What I mean is how would -- was there a computer process that would -- a random number generator or something that would occur that would help generate a random representative sample?

A. Yes, I believe that is -- I don't know the computer model but yes, our collateral analyst would select the loan sample through a computer model of some sort.

Q. And it was designed to be a random

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representative sample of the broader collateral in the transaction?

A. It was designed to be random.

Q. Was it designed to also be representative?

MR. BUCHDAHL: Objection to form.

THE WITNESS: I believe that to be the case.

BY MS. RENDON:

Q. Who was -- oh, and that's Mr. Hachikian, is that the collateral analyst who you think --

A. Yes.

Q. -- was responsible for doing that?

A. Yes.

Q. Okay. Do you know if Mr. Hachikian worked on the Flag -- the two Flagstar transactions?

A. I don't know for sure.

Q. Okay.

I'm going to show you a -- our first document. How about that?

A. Wonderful.

MS. RENDON: A new deposition

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experience so you can say you've had the whole array. I'm going to show you, and I guess we're marking each exhibit as the witness's name with an exhibit number; is that correct, Jacob?

MR. BUCHDAHL: That's what you did last time.

MS. RENDON: So we'll call this Williams 1.

(Williams Exhibit 1, document Bates labeled AGM06167887 through 936, marked for identification.)

BY MS. RENDON:

Q. And Mr. Beard, if you could kind of take a look at that and just familiarize yourself generally with the e-mail and the attachments to the e-mail.

And just while Mr. -- I think I just called you Mr. Beard. While Mr. Williams looks at this document, which we've marked as Williams 1, I'll just identify it for the record as a cover e-mail bearing Bates number AGM06167887, and including an attachment that begins at AGM06167888 and running through 67932.

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Q. And the base case break even is the highest percentage of defaults the structure can withstand before FSA has to start paying out claims; is that correct?

A. That is correct.

Q. So effectively you had 3.1 percent additional coverage above your worse case scenario?

MR. BUCHDAHL: Objection to form.

THE WITNESS: Not correct. We had 3.1 times the 4.31.

BY MS. RENDON:

Q. Okay. To protect against -- and this -- well, strike that.

Was that form of coverage designed -- or strike that.

Was that form of coverage part of what you referred to I think before as the zero loss underwriting model of FSA?

A. Yes.

Q. If you had used solely the RMG loss model of 9.94 percent, that would have caused there to have been additional loss coverage and first loss protection built into the structure?

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A. That's one conclusion, yes. The other conclusion would be there would have been 1.4 times coverage.

Q. Would you have done a deal at 1.4 times coverage?

A. Probably not.

Q. Let me ask you to turn to what we've marked as Williams Exhibit 11. You should have that premarked in front of you.

A. Yes.

Q. Can I ask you to identify for me what you understand this document to be?

A. These would be the minutes from the MRC for the 2005-1 transaction.

Q. And what do you understand is reflected in the minutes?

A. Generally speaking, there's a brief description of the transaction and the discussion regarding the salient points.

Q. And it's your understanding that these minutes are created in the regular course of FSA's business?

A. Yes.

Q. Let me ask you to -- well, it says